

Service Date: October 19, 1982

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application By)	UTILITY DIVISION
THE MONTANA POWER COMPANY For)	
Authority to Increase Rates for)	DOCKET NO. 82.8.54
Electric Service.)	INTERIM ORDER NO. 4938

FINDINGS OF FACT

1. On August 11, 1982, The Montana Power Company (Applicant or MPC) filed an application with this Commission to increase rates by \$52,947,598.

2. On September 2, 1982, Applicant filed an application for interim rate relief in the amount of \$34,102,338.

3. Pursuant to the Commission's rules on interim rate increases, ARM Sections 38.5.501, et seq., Applicant has given proper notice of its interim rate increase request. Such notice was given to the Montana Consumer Counsel, parties to Applicant's most recent general rate increase application, and to media of general dissemination statewide. The notice advised interested parties to advise the Commission quickly of any comments relative to the request.

4. Applicant has filed a 13 month average rate base in the amount of \$468,742,132. The Commission accepts this amount for the purpose of calculating interim relief.

5. In Docket No. 80.4.2, the actual Company out-of-state power sales in Megawatt-hours for the test period (year-end September, 1979) were 1,154,857 Mwh. The adjusted figure, however, reflecting both normalized water conditions based on the 40-year water level study and certain adjustments made by Mr. George Hess was 636,941 Mwh.

6. In the present case, Docket No. 82.8.54, the Company's actual out-of-state power sales in Megawatt-hours for the 1981 test period were 2,110,325 Mwh. The adjusted figure, however, reflecting both normalized water conditions based on the 40-year water level study and other minor adjustments was 1,364,213 Mwh.

7. The actual Company out-of-state power sales revenues for the 1981 test period were \$65,242,547. That figure, however, must be adjusted in accordance with interim rules to reflect normalized water conditions based on the 40-year water level study. If MPC had strictly followed the methodology used in Order No. 4714a, Docket No. 80.4.2, the resulting normalized revenues from out-of-state sales would have been a proposed \$26,102,145. The Company, however, proposed an alternative methodology in computing normalized out-of-state sales which the Company believes more correctly determines these revenues. Adjustments were also made that increased out-of-state sales revenues. MPC's alternate methodology resulted in normalized revenues (including Commission adjustments) of \$35,732,692, an increase of \$9,630,547 over revenues resulting from use of the methodology used in the prior case, Docket No. 80.4.2. The Commission finds the Company's alternate methodology for computing normalized revenues from out-of-state sales to be proper for this Interim Order, and therefore, the proper related amount is \$35,732,692.

8. In this Docket the Applicant has proposed a different method for pricing out-of-state sales than was used in Docket No. 80.4.2. Out-of-state sales in Docket No. 80.4.2 were all priced at 50 percent of fixed costs plus incremental costs. On May 18, 1982, the Applicant applied to the Federal Energy Regulatory Commission (FERC) for authorization to increase its M-1 tariff in order to recover 100 percent of fixed costs. This request was subsequently approved by FERC.

Under the new pricing proposal, out-of-state sales are priced according to a three-tier approach:

- (1) One hundred percent of fixed costs from Colstrip 1 and 2, plus incremental costs are used to set the price for surplus power in critical water conditions in all months except May and June;
- (2) Fifty percent of fixed costs plus incremental costs are used to calculate the price for the months of May and June in critical water conditions. This method is also used to determine the pricing of out-of-state sales in median water conditions in all months except May and June;
- (3) The pricing of out-of-state sales in May and June for median water was established by an estimate of the market by MPC personnel.

This revised method of calculating out-of-state sales is approved by the Commission for the purpose of this interim order.

9. In the preparation of the interim filing the Applicant discovered that expenses associated with the return of some power which had been lent to Portland General Electric had not been included in their filing in the general case. The amount of these expenses was \$910,823. An examination revealed that these expenses should have been included in the interim request. The Commission accepts this adjustment for the calculation of interim relief.

10. The Company's required interim relief in the amount of \$33,001,060 is determined as follows:

Electric Utility Rate Base	\$468,742,132
Rate of Return	x 11 39%
Net Operating Income	\$ 53,389,729
Net Operating Income for the Year Ended 12/31/81 Adjusted for Known Changes	<u>36,782,016</u>
Required Incremental Increase in Net Operating Income	\$ 16,607,713
Add: Consumer Counsel Tax	19,801
Income Taxes	<u>16,373,546</u>
Required Revenue Increase	\$ 33,001,060
Consumer Counsel Tax (0.06%)	<u>19,801</u>
Taxable Income for State Income Taxes	\$ 32,981,259
State Income Tax (6.75%)	<u>2,226,235</u>
Taxable Income for Federal Income Tax	\$ 30,755,024
Federal Income Tax Including Deferrals (46%)	<u>14,147,311</u>
Required Incremental Increase in Net Operating Income	<u>\$ 16,607,713</u>

The Commission finds that the Applicant has demonstrated in this Docket that an interim revenue increase of \$33,001,060 is required.

CONCLUSIONS OF LAW

1. The Montana Power Company is a public utility furnishing electric service to consumers in the State of Montana. As such it is subject to the supervision, regulation and control of this Commission, Section 69-3-102, MCA.

2. Section 69-3-304, MCA, provides in part, "The Commission may in its discretion temporarily approve increases pending a hearing or final decision."

3. The Commission finds that the Company's application meets the requirements of the rules governing interim increases, ARM 38.5.501, et seq.

ORDER

1. The Montana Power Company is hereby granted authority to implement on an interim basis increased electric rates designed to generate \$33,001,060 in additional revenues on an annual basis.

2. The Montana Power Company is to file revised rate schedules reflecting: 1) an interim credit applied to qualifying loads resulting from the Residential Purchase and Sales Agreement and 2) a uniform percentage increase of 24.29% applied to all rates resulting from the interim authorized revenue increase granted herein.

3. Concurrent with the filing of complying tariffs specified above, the Montana Power Company is also ordered to file a set of tariffs which reflect a uniform percent increase applied to rates complying with Order Nos. 4714d and 4714e, as adjusted to reflect test year ending December 31, 1981.

4. The Montana Power Company's Motion for Extension of Time in Which to File Restructured Irrigation Rate, filed on September 21, 1982, is denied. The Commission, however, grants an extension to December 1, 1982. This rate schedule, filed in compliance with Order Nos. 4714d and 4714e, shall be filed with and without the interim credit and interim uniform percentage adjustments referenced above.

5. Nothing in this Interim Order precludes the Commission from adopting in its final order, after reviewing the entire record in this Docket, a revenue requirement different from that contained in this order.

6. The interim relief granted in this order is to be effective for electric service rendered on and after October 18, 1982.

7. Interim revenues granted herein are subject to rebate should the final order in this Docket disapprove this interim revenue increase. Such a rebate would include interest at the currently authorized rate of return on equity (13.45%), as was agreed by the Applicant.

DONE IN OPEN SESSION this 18th day of October, 1982, by a vote of 4-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806, ARM.